Canadian Institute of Actuaries / Institut canadien des actuaires

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Subject: **Entitlement to pension while employed**

The Canadian Institute of Actuaries (CIA) would like to offer the following comments on the recent Info*Pensions* – Issue 23, which was distributed by the Office of the Superintendent of Financial Institutions (OSFI) on November 27, 2020.

The document contained an interpretation of the Pension Benefits Standards Act, 1985 (PBSA) regarding a member's entitlement to commence a pension while remaining employed with their employer. OSFI's *"*position is that, under the PBSA, a pension plan cannot require a member who has attained pensionable age to cease employment before commencing payment of their pension*."* Prior to this interpretation, the understanding among stakeholders was that a pension plan could permit the receipt of a pension while in employment, which is routinely done to respect the Income Tax Act requirements that a pension must commence prior to the end of the year in which a member turns age 71. However, few, if any, viewed the application of the pensionable age provision to mean that a member would be permitted to receive his or her pension while employed as a minimum PBSA requirement.

The CIA is very concerned that this announcement effectively changes a long-standing PBSA provision without advanced notification to stakeholders. A sudden unilateral change in regulations, or common understanding thereof, is a major irritant for sponsors and other stakeholders which could result in significant financial and workforce disruption. Furthermore, this interpretation is very unlikely to have been the intent of the drafters, as it contravenes a core pension principle, in that pensions provide income replacement following retirement from service. Having such an intent would have been surprising as no other Canadian jurisdiction has such requirement, and public policy discourages federal public servants from receiving a pension while in public employment.

If OSFI's interpretation is correct, it will have significant financial and human resource consequences. Employees who have attained pensionable age would be at a significant financial advantage if they could collect their pension and continue to work at full salary for the same employer. From a plan sponsor financial perspective, pension liabilities and service costs

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would be expected to substantially increase as early as next year as retirement assumptions are modified to reflect earlier pension commencement. From a human resource perspective, there would be little incentive to actually leave employment when their pension commences. This revision would cause a fundamental change to the employment relationship, which is not reflected in current practices or collective agreements.

The Department of Finance recently launched consultations on strengthening federally regulated pension plans. The CIA intends to elaborate on this item within our submission, due January 14, 2021.

Thank you for taking the time to review our comments. If you have any questions, please contact Chris Fievoli, CIA Staff Actuary, Communications and Public Affairs, at 613-656-1927 or chris.fievoli@cia-ica.ca.

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